

FIRST COMMONWEALTH FINANCIAL CORP /PA/
Form 10-Q
August 07, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-11138

First Commonwealth Financial Corporation

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

25-1428528
(I.R.S. Employer
Identification No.)

22 North Sixth Street, Indiana, PA
(Address of principal executive offices)

15701
(Zip Code)

724-349-7220

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Smaller reporting company Non-accelerated filer

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of issuer's common stock, \$1.00 par value, as of August 2, 2012, was 104,724,846.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

INDEX

	PAGE
<u>PART I.</u>	Financial Information
<u>ITEM 1.</u>	<u>Financial Statements and Supplementary Data</u>
	Included in Part I of this report:
	<u>First Commonwealth Financial Corporation and Subsidiaries</u>
	<u>Condensed Consolidated Statements of Financial Condition (Unaudited)</u> 3
	<u>Condensed Consolidated Statements of Income (Unaudited)</u> 4
	<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited)</u> 5
	<u>Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)</u> 6
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u> 7
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u> 8
<u>ITEM 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 43
<u>ITEM 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 66
<u>ITEM 4.</u>	<u>Controls and Procedures</u> 66
<u>PART II.</u>	<u>Other Information</u>
<u>ITEM 1.</u>	<u>Legal Proceedings</u> 67
<u>ITEM 1A.</u>	<u>Risk Factors</u> 67
<u>ITEM 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 67
<u>ITEM 3.</u>	<u>Defaults Upon Senior Securities</u> 67
<u>ITEM 4.</u>	<u>Mine Safety Disclosures</u> 67
<u>ITEM 5.</u>	<u>Other Information</u> 67
<u>ITEM 6.</u>	<u>Exhibits</u> 68
	<u>Signatures</u> 69

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data*

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)

	June 30, 2012	December 31, 2011
	(dollars in thousands, except share data)	
Assets		
Cash and due from banks	\$ 82,659	\$ 74,967
Interest-bearing bank deposits	3,839	3,511
Securities available for sale, at fair value	1,159,202	1,142,776
Other investments	35,916	39,796
Loans held for sale	0	13,412
Loans:		
Portfolio loans	4,159,531	4,043,643
Allowance for credit losses	(61,676)	(61,234)
Net loans	4,097,855	3,982,409
Premises and equipment, net	66,740	66,755
Other real estate owned	19,140	30,035
Goodwill	159,956	159,956
Amortizing intangibles, net	3,101	3,843
Other assets	318,408	323,662
Total assets	\$ 5,946,816	\$ 5,841,122
Liabilities		
Deposits (all domestic):		
Noninterest-bearing	\$ 823,880	\$ 780,377
Interest-bearing	3,638,082	3,724,307
Total deposits	4,461,962	4,504,684
Short-term borrowings	474,264	312,777
Subordinated debentures	105,750	105,750
Other long-term debt	75,370	101,664
Total long-term debt	181,120	207,414
Other liabilities	56,980	57,704
Total liabilities	5,174,326	5,082,579
Shareholders Equity		
Preferred stock, \$1 par value per share, 3,000,000 shares authorized, none issued	0	0
Common stock, \$1 par value per share, 200,000,000 shares authorized; 105,563,455 shares issued at June 30, 2012 and December 31, 2011 and 104,728,846 and 104,916,994 shares outstanding at June 30, 2012 and December 31, 2011, respectively	105,563	105,563
Additional paid-in capital	365,541	365,868
Retained earnings	307,466	294,056

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Accumulated other comprehensive income, net	2,834	2,001
Treasury stock (834,609 and 646,461 shares at June 30, 2012 and December 31, 2011, respectively)	(8,314)	(7,345)
Unearned ESOP shares	(600)	(1,600)
Total shareholders equity	772,490	758,543
Total liabilities and shareholders equity	\$ 5,946,816	\$ 5,841,122

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	For the Three-Months Ended June 30,		For the Six-Months Ended June 30,	
	2012	2011	2012	2011
(dollars in thousands, except share data)				
Interest Income				
Interest and fees on loans	\$ 46,408	\$ 49,379	\$ 94,448	\$ 100,262
Interest and dividends on investments:				
Taxable interest	8,279	8,558	16,828	16,932
Interest exempt from federal income taxes	5	13	10	199
Dividends	19	12	40	29
Interest on bank deposits	1	27	2	36
Total interest income	54,712	57,989	111,328	117,458
Interest Expense				
Interest on deposits	5,643	9,093	11,890	18,629
Interest on short-term borrowings	279	178	506	363
Interest on subordinated debentures	1,422	1,386	2,855	2,769
Interest on other long-term debt	450	447	989	943
Total interest on long-term debt	1,872	1,833	3,844	3,712
Total interest expense	7,794	11,104	16,240	22,704
Net Interest Income	46,918	46,885	95,088	94,754
Provision for credit losses	4,297	9,112	8,084	22,929
Net Interest Income after Provision for Credit Losses	42,621	37,773	87,004	71,825
Noninterest Income				
Changes in fair value on impaired securities	(1,323)	448	175	2,317
Non-credit related losses (gains) on securities not expected to be sold (recognized in other comprehensive income)	1,323	(448)	(175)	(2,317)
Net impairment losses	0	0	0	0
Net securities gains	0	1,608	0	2,185
Trust income	1,607	1,764	3,149	3,482
Service charges on deposit accounts	3,737	3,748	7,239	7,174
Insurance and retail brokerage commissions	1,670	1,616	3,094	3,178
Income from bank owned life insurance	1,459	1,390	2,904	2,747
Gain on sale of assets	1,444	1,251	3,559	1,482
Card related interchange income	3,285	3,042	6,399	5,842
Other income	2,894	2,645	7,132	5,302
Total noninterest income	16,096	17,064	33,476	31,392
Noninterest Expense				
Salaries and employee benefits	22,363	21,546	44,121	42,674
Net occupancy expense	3,303	3,495	6,707	7,227
Furniture and equipment expense	3,024	3,135	6,208	6,315
Data processing expense	1,796	1,525	3,359	2,949
Pennsylvania shares tax expense	1,510	1,434	2,693	2,612
Intangible amortization	371	389	742	779
Collection and repossession expense	670	1,726	3,369	3,042
Other professional fees and services	940	1,099	2,139	2,224

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

FDIC insurance	1,262	1,248	2,499	3,083
Loss on sale or write-down of assets	500	4,214	3,789	4,515
Other operating expenses	6,109	5,889	12,974	11,709
Total noninterest expense	41,848	45,700	88,600	87,129
Income Before Income Taxes	16,869	9,137	31,880	16,088
Income tax provision	4,548	1,718	8,508	3,423
Net Income	\$ 12,321	\$ 7,419	\$ 23,372	\$ 12,665
Average Shares Outstanding	104,894,261	104,686,072	104,852,494	104,652,472
Average Shares Outstanding Assuming Dilution	104,901,239	104,686,072	104,855,543	104,653,604
Per Share Data:				
Basic Earnings per Share	\$ 0.12	\$ 0.07	\$ 0.22	\$ 0.12
Diluted Earnings per Share	\$ 0.12	\$ 0.07	\$ 0.22	\$ 0.12
Cash Dividends Declared per Common Share	\$ 0.05	\$ 0.03	\$ 0.08	\$ 0.06

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	For the Three-Months Ended June 30,		For the Six-Months Ended June 30,	
	2012	2011	2012	2011
	(dollars in thousands)			
Net Income	\$ 12,321	\$ 7,419	\$ 23,372	\$ 12,665
Other comprehensive (loss) income, before tax (benefit) expense:				
Unrealized holding gains on securities arising during the period	998	9,125	1,097	7,509
Non-credit related (losses) gains on securities not expected to be sold	(1,323)	448	175	2,317
Less: reclassification adjustment for (gains) losses on securities included in net income	0	(1,608)	0	(2,185)
Total other comprehensive (loss) income, before tax (benefit) expense	(325)	7,965	1,272	7,641
Income tax (benefit) expense related to items of other comprehensive (loss) income	(119)	2,787	439	2,674
Comprehensive Income	\$ 12,115	\$ 12,597	\$ 24,205	\$ 17,632

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)

	Shares Outstanding	Common Stock	Additional Paid-in- Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Treasury Stock	Unearned ESOP Shares	Total Shareholders Equity
	(dollars in thousands, except share data)							
Balance at December 31, 2011	104,916,994	\$ 105,563	\$ 365,868	\$ 294,056	\$ 2,001	\$ (7,345)	\$ (1,600)	\$ 758,543
Net income				23,372				23,372
Other comprehensive income					833			833
Cash dividends declared (\$0.08 per share)				(8,402)				(8,402)
Net decrease in unearned ESOP shares							1,000	1,000
ESOP market value adjustment (\$477, net of \$167 tax benefit)			(310)					(310)
Discount on dividend reinvestment plan purchases			(42)					(42)
Tax benefit of stock options exercised			1					1
Treasury stock acquired	(469,700)					(3,045)		(3,045)
Treasury stock reissued	57,552		0	(296)		650		354
Restricted stock	224,000		24	(1,264)		1,426		186
Balance at June 30, 2012	104,728,846	\$ 105,563	\$ 365,541	\$ 307,466	\$ 2,834	\$ (8,314)	\$ (600)	\$ 772,490

	Shares Outstanding	Common Stock	Additional Paid-in- Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Treasury Stock	Unearned ESOP Shares	Total Shareholders Equity
	(dollars in thousands, except share data)							
Balance at December 31, 2010	104,846,194	\$ 105,515	\$ 366,488	\$ 291,492	\$ (2,458)	\$ (7,660)	\$ (3,600)	\$ 749,777
Net income				12,665				12,665
Other comprehensive income					4,967			4,967
Cash dividends declared (\$0.06 per share)				(6,278)				(6,278)
Net decrease in unearned ESOP shares							1,000	1,000
ESOP market value adjustment (\$472, net of \$165 tax benefit)			(307)					(307)
Discount on dividend reinvestment plan purchases			(32)					(32)
Tax benefit of stock options exercised			6					6
Treasury stock acquired	(1,336)					(9)		(9)
Treasury stock reissued	13,760		0	(83)		155		72
Restricted stock	25,000	25	(10)	0		56		71
Common stock issuance	23,376	23	121			0		144
Balance at June 30, 2011	104,906,994	\$ 105,563	\$ 366,266	\$ 297,796	\$ 2,509	\$ (7,458)	\$ (2,600)	\$ 762,076

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Six-Months Ended June 30,	
	2012	2011
	(dollars in thousands)	
Operating Activities		
Net income	\$ 23,372	\$ 12,665
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	8,084	22,929
Deferred tax expense	1,934	211
Depreciation and amortization	3,800	4,827
Net (gains) losses on securities and other assets	(522)	1,384
Net amortization of premiums and discounts on securities	717	460
Net accretion of premiums and discounts on long-term debt	(56)	(69)
Income from increase in cash surrender value of bank owned life insurance	(2,904)	(2,747)
Decrease in interest receivable	1,031	1,085
Decrease in interest payable	(951)	(558)
Increase (decrease) in income taxes payable	7,042	(894)
Other-net	(3,945)	(122)
Net cash provided by operating activities	37,602	39,171
Investing Activities		
Transactions with securities available for sale:		
Proceeds from sales	0	69,926
Proceeds from maturities and redemptions	276,167	229,515
Purchases	(292,056)	(331,702)
Proceeds from the redemption of FHLB stock	3,880	4,764
Proceeds from bank owned life insurance	1,408	88
Proceeds from sale of loans	15,981	4,402
Proceeds from sales of other assets	10,971	5,513
Net (increase) decrease in loans	(125,567)	181,216
Purchases of premises and equipment	(4,022)	(4,230)
Net cash (used in) provided by investing activities	(113,238)	159,492
Financing Activities		
Net decrease in federal funds purchased	(26,300)	(12,800)
Net increase (decrease) in other short-term borrowings	187,787	(13,126)
Net decrease in deposits	(42,692)	(81,657)
Repayments of other long-term debt	(25,238)	(24,328)
Proceeds from issuance of common stock	0	144
Discount on dividend reinvestment plan purchases	(42)	(32)
Dividends paid	(8,402)	(6,278)
Proceeds from reissuance of treasury stock	354	72
Purchase of treasury stock	(1,812)	(9)
Stock option tax benefit	1	0
Net cash provided by (used in) financing activities	83,656	(138,014)
Net increase in cash and cash equivalents	8,020	60,649
Cash and cash equivalents at January 1	78,478	69,858

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Cash and cash equivalents at June 30	\$ 86,498	\$ 130,507
--------------------------------------	-----------	------------

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Total other comprehensive (loss) income	\$ (325)	\$ 119	\$ (206)	\$ 7,965	\$ (2,787)	\$ 5,178
---	----------	--------	----------	----------	------------	----------

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 3 Supplemental Cash Flow Disclosures

The following table presents information related to cash paid during the period for interest and income taxes as well as detail on non-cash investing and financing activities for the six-months ended June 30:

	2012	2011
	(dollars in thousands)	
Cash paid during the period for:		
Interest	\$ 17,278	\$ 23,377
Income taxes	5,700	3,900
Non-cash investing and financing activities:		
ESOP loan reductions	\$ 1,000	\$ 1,000
Loans transferred to other real estate owned and repossessed assets	3,227	20,640
Other real estate owned sold and settled out of period	80	0
Loans transferred from held to maturity to available for sale	0	823
Gross increase in market value adjustment to securities available for sale	1,254	7,631
Unsettled treasury stock repurchases	1,233	0

Note 4 Earnings per Share

The following table summarizes the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computations:

	For the Three-Months Ended June 30,		For the Six-Months Ended June 30,	
	2012	2011	2012	2011
Weighted average common shares issued	105,563,455	105,558,574	105,563,455	105,536,947
Average treasury shares	(410,247)	(656,461)	(476,286)	(660,206)
Averaged unearned ESOP shares	(50,170)	(181,835)	(67,580)	(198,285)
Average unearned nonvested shares	(208,777)	(34,206)	(167,095)	(25,984)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	104,894,261	104,686,072	104,852,494	104,652,472
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	6,978	0	3,049	0
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	0	0	0	1,132
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	104,901,239	104,686,072	104,855,543	104,653,604

The following table shows the number of shares and the price per share related to common stock equivalents that were not included in the computation of diluted earnings per share for the six-months ended June 30, because to do so would have been antidilutive.

	2012			2011		
	Shares	Price Range		Shares	Price Range	
		From	To		From	To
Stock Options	329,866	\$ 6.36	\$ 14.55	546,270	\$ 6.36	\$ 14.55
Restricted Stock	96,113	5.96	6.82	20,725	5.70	6.82

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 5 Variable Interest Entities

As defined by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810-10, a Variable Interest Entity (VIE) is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Under ASC 810-10, an entity that holds a variable interest in a VIE is required to consolidate the VIE if the entity is deemed to be the primary beneficiary, which generally means it is subject to a majority of the risk of loss from the VIE s activities, is entitled to receive a majority of the entity s residual returns, or both.

First Commonwealth s VIEs are evaluated under the guidance included in FASB Accounting Standards Update (ASU) 2009-17. These VIEs include qualified affordable housing projects that First Commonwealth has invested in as part of its community reinvestment initiatives. We periodically assess whether or not our variable interests in the VIE, based on qualitative analysis, provide us with a controlling interest in the VIE. The analysis includes an assessment of the characteristics of the VIE. We do not have a controlling financial interest in the VIE, which would require consolidation of the VIE, as we do not have the following characteristics: (1) the power to direct the activities that most significantly impact the VIE s economic performance; and (2) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

First Commonwealth s maximum potential exposure is equal to its carrying value and is summarized in the table below:

	June 30, 2012	December 31, 2011
	(dollars in thousands)	
Low Income Housing Limited Partnership Investments	\$ 510	\$ 667

Note 6 Commitments and Contingent Liabilities**Commitments and letters of credit**

Standby letters of credit and commercial letters of credit are conditional commitments issued by First Commonwealth to guarantee the performance of a customer to a third party. The contract or notional amount of these instruments reflects the maximum amount of future payments that First Commonwealth could be required to pay under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. In addition, many of these commitments are expected to expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements.

The following table identifies the notional amount of those instruments at:

	June 30, 2012	December 31, 2011
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 1,480,490	\$ 1,495,009
Financial standby letters of credit	48,641	53,689
Performance standby letters of credit	66,197	76,371
Commercial letters of credit	1,048	1,297

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

The current notional amounts outstanding as of June 30, 2012 include financial standby letters of credit of \$0.1 million, performance standby letters of credit of \$5.8 million, and commercial letters of credit \$0.3 million issued

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 6 Commitments and Contingent Liabilities (Continued)

Commitments and letters of credit (Continued)

during the first six months of 2012. A liability of \$0.1 million has been recorded as of June 30, 2012 and December 31, 2011, which represents the estimated fair value of letters of credit issued. The fair value of letters of credit is estimated based on the unrecognized portion of fees received at the time the commitment was issued.

Unused commitments and letters of credit provide exposure to future credit loss in the event of nonperformance by the borrower or guaranteed parties. Management's evaluation of the credit risk in these commitments resulted in the recording of a liability of \$2.1 million as of June 30, 2012 and \$1.5 million as of December 31, 2011. The credit risk evaluation incorporated probability of default, loss given default and estimated utilization for the next twelve months for each loan category and the letters of credit.

Legal proceedings

McGrogan v. First Commonwealth Bank is a class action that was filed on January 12, 2009, in the Court of Common Pleas of Allegheny County, Pennsylvania. The action alleges that First Commonwealth Bank (the "Bank") promised class members a minimum interest rate of 8% on its IRA Market Rate Savings Account for as long as the class members kept their money on deposit in the IRA account. The class asserts that the Bank committed fraud, breached its modified contract with the class members, and violated the Pennsylvania Unfair Trade Practice and Consumer Protection Law when it resigned as custodian of the IRA Market Rate Savings Accounts in 2008 and offered the class members a roll-over IRA account with a 3.5% interest rate. At that time, there were 237 account holders with an average age of 64, and the aggregate balances in the IRA Market Rate Savings accounts totaled approximately \$11.5 million. Plaintiffs seek monetary damages for the alleged breach of contract, punitive damages for the alleged fraud and Unfair Trade Practice and Consumer Protection Law violations and attorney's fees. On July 27, 2011, the court granted class certification as to the breach of modified contract claim and denied class certification as to the fraud and Pennsylvania Unfair Trade Practice and Consumer Protection Law claims. The breach of contract claim is predicated upon a letter sent to customers in 1998 which reversed an earlier decision by the Bank to reduce the rate paid on the accounts. The letter stated, in relevant part, "This letter will serve as notification that a decision has been made to re-establish the rate on your account to eight percent (8%). This rate will be retroactive to your most recent maturity date and will continue going forward on deposits presently in the account and on annual additions." In granting class certification, the court found that the letter could constitute a modification of the original IRA contract that would obligate the Bank to pay a minimum rate of 8% until the accounts are closed. Plaintiffs and the Bank have filed motions for summary judgment. In support of its motion, the Bank has asserted that the 1998 letter did not alter the Bank's right to resign as custodian and close the accounts, which the Bank exercised in 2008. Oral argument on the motions for summary judgment was held on April 4, 2012, and a decision is currently pending. The amount of the Bank's liability, if any, will depend upon information which is not presently known to the Bank, including the court's interpretation of the 1998 letter, each class member's life expectancy and pace of distributions from the IRA account, and the extent to which damages were or could have been mitigated through alternative investments. Accordingly, the Company is unable to estimate the amount or range of a reasonably possible loss.

Other matters

There are no other material legal proceedings to which First Commonwealth or its subsidiaries are a party, or of which their property is the subject, except proceedings which arise in the normal course of business and, in the opinion of management, will not have a material adverse effect on the consolidated operations or financial position of First Commonwealth or its subsidiaries.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 7 Investment Securities

Below is an analysis of the amortized cost and estimated fair values of securities available for sale at:

	June 30, 2012				December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(dollars in thousands)								
Obligations of U.S. Government Agencies:								
Mortgage-Backed Securities Residential	\$ 30,541	\$ 4,079	\$ 0	\$ 34,620	\$ 32,139	\$ 4,061	\$ (6)	\$ 36,194
Obligations of U.S. Government- Sponsored Enterprises:								
Mortgage-Backed Securities Residential	815,982	29,853	(96)	845,739	771,196	29,835	0	801,031
Mortgage-Backed Securities Commercial	175	2	0	177	193	1	(1)	193
Other Government Sponsored Enterprises	241,697	870	(1)	242,566	267,807	973	(132)	268,648
Obligations of States and Political Subdivisions	443	6	0	449	444	15	0	459
Corporate Securities	11,796	274	(71)	11,999	11,811	162	(562)	11,411
Pooled Trust Preferred Collateralized Debt Obligations	52,889	153	(31,250)	21,792	54,762	3	(31,785)	22,980
Total Debt Securities	1,153,523	35,237	(31,418)	1,157,342	1,138,352	35,050	(32,486)	1,140,916
Equities	1,860	0	0	1,860	1,860	0	0	1,860
Total Securities Available for Sale	\$ 1,155,383	\$ 35,237	\$ (31,418)	\$ 1,159,202	\$ 1,140,212	\$ 35,050	\$ (32,486)	\$ 1,142,776

The amortized cost and estimated fair value of debt securities available for sale at June 30, 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
(dollars in thousands)		
Due within 1 year	\$ 7,363	\$ 7,373
Due after 1 but within 5 years	234,776	235,641
Due after 5 but within 10 years	0	0

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Due after 10 years	64,686	33,792
	306,825	276,806
Mortgage-Backed Securities (a)	846,698	880,536
Total Debt Securities	\$ 1,153,523	\$ 1,157,342

- (a) Mortgage Backed Securities include an amortized cost of \$30.5 million and a fair value of \$34.6 million for Obligations of U.S. Government agencies issued by Ginnie Mae and Obligations of U.S. Government-sponsored enterprises issued by Fannie Mae and Freddie Mac which had an amortized cost of \$816.2 million and a fair value of \$845.9 million.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 7 Investment Securities (Continued)

Proceeds from sale, gross gains (losses) realized on sales, maturities and other-than-temporary impairment charges related to securities available for sale were as follows for the six-months ended June 30:

	2012	2011
	(dollars in thousands)	
Proceeds from sale	\$ 0	\$ 69,926
Gross gains (losses) realized:		
Sales Transactions:		
Gross gains	\$ 0	\$ 2,368
Gross losses	0	(258)
	0	2,110
Maturities and impairment		
Gross gains	0	75
Gross losses	0	0
Other-than-temporary impairment	0	0
	0	75
Net gains and impairment	\$ 0	\$ 2,185

Securities available for sale with a fair value of \$622.8 million and \$668.8 million were pledged as of June 30, 2012 and December 31, 2011, respectively, to secure public deposits and for other purposes required or permitted by law.

There were no held-to-maturity debt securities as of June 30, 2012 and December 31, 2011. For the six-months ended June 30, 2012 and 2011, there were no gains or losses for debt securities held-to-maturity.

Note 8 Other Investments

As a member of the Federal Home Loan Bank (FHLB), First Commonwealth is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules and not by market participants. As of June 30, 2012 and December 31, 2011, our FHLB stock totaled \$35.9 million and \$39.8 million, respectively and is included in Other investments on the Condensed Consolidated Statements of Financial Condition.

During 2012 and 2011, the FHLB repurchased excess stock from its members by repurchasing the lessor of 5% of the members total capital stock outstanding or its total excess capital stock. As a result, during the six-months ended June 30, 2012 and 2011, stock repurchases occurred in the amounts of \$3.9 million and \$2.4 million, respectively. The FHLB repurchased stock and paid dividends in both the first and second quarters of 2012, however, decisions regarding any future repurchase of excess capital stock and dividend payments will be made by the FHLB

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

on a quarterly basis. Management reviewed the FHLB's Form 10-Q for the period ended March 31, 2012 filed with the SEC on May 9, 2012.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 8 Other Investments (Continued)

FHLB stock is held as a long-term investment and its value is determined based on the ultimate recoverability of the par value. First Commonwealth evaluates impairment quarterly. The decision of whether impairment exists is a matter of judgment that reflects our view of the FHLB's long-term performance, which includes factors such as the following:

its operating performance;

the severity and duration of declines in the fair value of its net assets related to its capital stock amount;

its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance;

the impact of legislative and regulatory changes on the FHLB, and accordingly, on the members of FHLB; and

its liquidity and funding position.

After evaluating all of these considerations, First Commonwealth concluded that the par value of its investment in FHLB stock will be recovered. Accordingly, no impairment charge was recorded on these securities for the six-months ended June 30, 2012. Our evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

Note 9 Impairment of Investment Securities

As required by FASB ASC Topic 320, Investments—Debt and Equity Securities, credit related other-than-temporary impairment on debt securities is recognized in earnings while non-credit related other-than-temporary impairment on debt securities not expected to be sold is recognized in OCI. During the six-months ended June 30, 2012 and 2011, no other-than-temporary impairment charges were recognized and \$0.2 and \$2.3 million, respectively, in non-credit related gains on our trust preferred collateralized debt obligations that were determined to be impaired in previous periods was recorded in OCI. All of the securities for which other-than-temporary impairment was recorded were classified as available for sale securities.

First Commonwealth utilizes the specific identification method to determine the net gain or loss on debt securities and the average cost method to determine the net gain or loss on equity securities.

In the Condensed Consolidated Statements of Income, the Changes in fair value on impaired securities line represents the change in fair value of securities impaired in the current or previous periods. The change in fair value includes both non-credit and credit related gains or losses. Credit related losses occur when the entire amortized cost of the security will not be recovered. The Non-credit related losses (gains) on securities not expected to be sold (recognized in other comprehensive income) line represents the gains and losses on the securities resulting from factors other than credit. The non-credit related gain or loss is disclosed in the Condensed Consolidated Statements of Income and recognized through other comprehensive income. The Net impairment losses line represents the credit related losses recognized in total noninterest income for the related period.

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

We review our investment portfolio on a quarterly basis for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 9 Impairment of Investment Securities (Continued)

of the issuer and whether we are more likely than not to sell the security. We evaluate whether we are more likely than not to sell debt securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy, tax position and interest rate risk position. In addition, the risk of future other-than-temporary impairment may be influenced by additional bank failures, weakness in the U.S. economy, changes in real estate values and additional interest deferrals in our pooled trust preferred collateralized debt obligations. Our pooled trust preferred collateralized debt obligations are beneficial interests in securitized financial assets within the scope of FASB ASC Topic 325, Investments—Other, and are therefore evaluated for other-than-temporary impairment using management's best estimate of future cash flows. If these estimated cash flows indicate that it is probable that an adverse change in cash flows has occurred, then other-than-temporary impairment would be recognized in accordance with FASB ASC Topic 320. There is a risk that First Commonwealth will record other-than-temporary impairment charges in the future. See Note 12, Fair Values of Assets and Liabilities, for additional information.

The following table presents the gross unrealized losses and estimated fair values at June 30, 2012 by investment category and time frame for which securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
(dollars in thousands)						
Obligations of U.S. Government Agencies:						
Mortgage-Backed Securities—Residential	\$ 0	\$ 0	\$ 15	\$ 0 (a)	\$ 15	\$ 0
Obligations of U.S. Government Sponsored Enterprises:						
Mortgage-Backed Securities—Residential	24,232	(96)	0	0	24,232	(96)
Other Government-Sponsored Enterprises	2,999	(1)	0	0	2,999	(1)
Obligations of States and Political Subdivisions	360	0 (a)	0	0	360	0
Corporate Securities	8,079	(71)	0	0	8,079	(71)
Pooled Trust Preferred Collateralized Debt Obligations	0	0	21,437	(31,250)	21,437	(31,250)
Total Debt Securities	35,670	(168)	21,452	(31,250)	57,122	(31,418)
Equities	0	0	0	0	0	0
Total Securities Available for Sale	\$ 35,670	\$ (168)	\$ 21,452	\$ (31,250)	\$ 57,122	\$ (31,418)

(a) Gross unrealized losses related to these types of securities are less than \$1 thousand.

At June 30, 2012, pooled trust preferred collateralized debt obligations accounted for almost all of the unrealized losses, while fixed income securities issued by U.S. Government agencies and U.S. Government-sponsored enterprises and corporate fixed income comprised less than one percent of total unrealized losses. There were no equity securities in an unrealized loss position at June 30, 2012.

As of June 30, 2012, our corporate securities had an amortized cost and an estimated fair value of \$11.8 million and \$12.0 million, respectively, and were comprised of single issue trust preferred securities issued primarily by money center and large regional banks. As of December 31, 2011, the same portion of the portfolio had an amortized cost of \$11.8 million and an estimated fair value of \$11.4 million. Included in the

corporate securities

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 9 Impairment of Investment Securities (Continued)

portfolio are investments which had a gross unrealized loss of \$71 thousand as of June 30, 2012 and \$0.6 million as of December 31, 2011. After a review of each of the issuer's asset quality, earnings trend and capital position, it was determined that none of the issues in an unrealized loss position were other-than-temporarily impaired. Additionally, all interest payments on these securities are being made as contractually required.

The following table presents the gross unrealized losses and estimated fair values at December 31, 2011 by investment category and time frame for which securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
(dollars in thousands)						
Obligations of U.S. Government Agencies:						
Mortgage-Backed Securities Residential	\$ 1,086	\$ (6)	\$ 16	\$ 0 (a)	\$ 1,102	\$ (6)
Obligations of U.S. Government- Sponsored Enterprises:						
Mortgage-Backed Securities Residential	\$ 25	\$ 0 (a)	0	\$ 0	\$ 25	\$ 0
Mortgage-Backed Securities Commercial	151	(1)	0	0	151	(1)
Other Government-Sponsored Enterprises	55,969	(132)	0	0	55,969	(132)
Corporate Securities	4,536	(562)	0	0	4,536	(562)
Pooled Trust Preferred Collateralized Debt Obligations	0	0	22,927	(31,785)	22,927	(31,785)
Total Securities Available for Sale	\$ 61,767	\$ (701)	\$ 22,943	\$ (31,785)	\$ 84,710	\$ (32,486)

(a) Gross unrealized losses related to these types of securities are less than \$1 thousand.

As of June 30, 2012, the book value of our pooled trust preferred collateralized debt obligations totaled \$52.9 million with an estimated fair value of \$21.8 million, which includes securities comprised of 348 banks and other financial institutions. Two of our pooled securities are senior tranches and the remainders are mezzanine tranches, three of which have no senior class remaining in the issue. Two of the pooled issues, representing \$3.5 million of the \$52.9 million book value, remain above investment grade. At the time of initial issue, the subordinated tranches ranged in size from approximately 7% to 35% of the total principal amount of the respective securities and no more than 5% of any pooled security consisted of a security issued by any one institution. As of June 30, 2012, after taking into account management's best estimates of future interest deferrals and defaults, seven of our securities had no excess subordination in the tranches we own and seven of our securities had excess subordination which ranged from 8% to 282% of the current performing collateral.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 9 Impairment of Investment Securities (Continued)

The following table provides information related to our pooled trust preferred collateralized debt obligations as of June 30, 2012:

Deal	Class	Book Value	Fair Value	Unrealized Gain (Loss)	Moody s/ Fitch Ratings	Number of Banks	Deferrals and Defaults as a % of Current Collateral	Excess Subordination as a % of Current Performing Collateral
(dollars in thousands)								
Pre TSL I	Senior	\$ 1,581	\$ 1,545	\$ (36)	Aa3/BBB	20	39.50%	217.29%
Pre TSL IV	Mezzanine	1,830	622	(1,208)	Caa2/CCC	6	27.07	96.48
Pre TSL V	Mezzanine	51	54	3	C/D	3	100.00	0.00
Pre TSL VI	Mezzanine	152	302	150	Ca/D	5	12.27	205.63
Pre TSL VII	Mezzanine	4,062	2,939	(1,123)	Ca/C	17	52.13	0.00
Pre TSL VIII	Mezzanine	1,735	981	(754)	C/C	35	45.91	0.00
Pre TSL IX	Mezzanine	2,250	766	(1,484)	Ca/C	47	25.88	8.19
Pre TSL X	Mezzanine	1,399	1,026	(373)	C/C	51	38.24	0.00
Pre TSL XII	Mezzanine	5,486	2,698	(2,788)	Ca/C	74	33.05	0.00
Pre TSL XIII	Mezzanine	12,258	3,820	(8,438)	Ca/C	63	39.60	0.00
Pre TSL XIV	Mezzanine	12,942	4,158	(8,784)	Ca/C	63	38.42	31.74
MMCap I	Senior	1,898	1,807	(91)	A3/BBB	20	38.89	282.43
MMCap I	Mezzanine	844	448	(396)	Ca/C	20	38.89	11.77
MM Comm IX	Mezzanine	6,401	626	(5,775)	Ca/D	31	38.14	0.00
Total		\$ 52,889	\$ 21,792	\$ (31,097)				

Lack of liquidity in the market for trust preferred collateralized debt obligations, credit rating downgrades and market uncertainties related to the financial industry are factors contributing to the impairment on these securities.

On a quarterly basis we evaluate our debt securities for other-than-temporary impairment. During the six-months ended June 30, 2012 and 2011, there were no credit related other-than-temporary impairment charges recognized on our pooled trust preferred collateralized debt obligations. When evaluating these investments we determine a credit related portion and a non-credit related portion of other-than-temporary impairment. The credit related portion is recognized in earnings and represents the difference between book value and the present value of future cash flows. The non-credit related portion is recognized in OCI and represents the difference between the fair value of the security and the amount of credit related impairment. A discounted cash flow analysis provides the best estimate of credit related other-than-temporary impairment for these securities.

Additional information related to the discounted cash flow analysis follows:

Our pooled trust preferred collateralized debt obligations are measured for other-than-temporary impairment within the scope of FASB ASC Topic 325 by determining whether it is probable that an adverse change in estimated cash flows has occurred. Determining whether there has been an adverse change in estimated cash flows from the cash flows previously projected involves comparing the present value of remaining

cash flows previously projected against the present value of the cash flows estimated at June 30, 2012. We consider the discounted cash flow analysis to be our primary evidence when determining whether credit related other-than-temporary impairment exists.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 9 Impairment of Investment Securities (Continued)

Results of a discounted cash flow test are significantly affected by other variables such as the estimate of future cash flows, credit worthiness of the underlying banks and determination of probability of default of the underlying collateral. The following provides additional information for each of these variables:

Estimate of Future Cash Flows Cash flows are constructed in an INTEX cash flow model which includes each deal's structural features. For collateral issued by financial institutions with over \$15 billion in asset size, we consider the alternative cost of funding and if that rate is less than the current rate being paid, we incorporate a prepayment in our estimate of future cash flows. The prepayment rates used are 20% in years 2 and 3 and a 2% prepayment rate thereafter. The modeled cash flows are then used to estimate if all the scheduled principal and interest payments of our investments will be returned.

Credit Analysis A quarterly credit evaluation is performed for each of the 348 banks comprising the collateral across the various pooled trust preferred securities. Our credit evaluation considers all evidence available to us and includes the nature of the issuer's business, its years of operating history, corporate structure, loan composition, loan concentrations, deposit mix, asset growth rates, geographic footprint and local economic environment. Our analysis focuses on profitability, return on assets, shareholders' equity, net interest margin, credit quality ratios, operating efficiency, capital adequacy and liquidity.

Probability of Default A probability of default is determined for each bank and is used to calculate the expected impact of future deferrals and defaults on our expected cash flows. Each bank in the collateral pool is assigned a probability of default for each year until maturity. Currently, any bank that is in default is assigned a 100% probability of default and a 0% projected recovery rate. All other banks in the pool are assigned a probability of default based on their unique credit characteristics and market indicators with a 10% projected recovery rate. For the majority of banks currently in deferral we assume the bank continues to defer and will eventually default and, therefore, a 100% probability of default is assigned. However, for some deferring collateral there is the possibility that they become current on interest or principal payments at some point in the future and in those cases a probability that the deferral will ultimately cure is assigned. The probability of default is updated quarterly. As of June 30, 2012, default probabilities for performing collateral ranged from 0.33% to 75%. Our credit evaluation provides a basis for determining deferral and default probabilities for each underlying piece of collateral. Using the results of the credit evaluation, the next step of the process is to look at pricing of senior debt or credit default swaps for the issuer (or where such information is unavailable, for companies having similar credit profiles as the issuer). The pricing of these market indicators provides the information necessary to determine appropriate default probabilities for each bank.

In addition to the above factors, our evaluation of impairment also includes a stress test analysis which provides an estimate of excess subordination for each tranche. We stress the cash flows of each pool by increasing current default assumptions to the level of defaults which results in an adverse change in estimated cash flows. This stressed breakpoint is then used to calculate excess subordination levels for each pooled trust preferred security. The results of the stress test allows management to identify those pools that are at a greater risk for a future break in cash flows so that we can monitor banks in those pools more closely for potential deterioration of credit quality.

Our cash flow analysis as of June 30, 2012, indicates that no credit related other-than-temporary impairment has occurred on our pooled trust preferred securities during the six-months ended June 30, 2012. Based upon the analysis performed by management, it is probable that seven of our pooled trust preferred securities will experience principal and interest shortfalls and therefore appropriate other-than-temporary charges were recorded

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 9 Impairment of Investment Securities (Continued)

in prior periods. These securities are identified in the table on page 17 with 0% Excess Subordination as a Percentage of Current Performing Collateral. For the remaining securities listed in that table, our analysis as of June 30, 2012 indicates it is probable that we will collect all contractual principal and interest payments.

During 2008, 2009 and 2010, other-than-temporary impairment charges were recognized on all of our pooled trust preferred securities, except for PreTSL I, PreTSL IV and MMCap I-Senior. Our cash flow analysis as of June 30, 2012, for all of these impaired securities indicates that it is now probable we will collect principal and interest in excess of what was estimated at the time other-than-temporary impairment charges were recorded. This change can be attributed to improvement in the underlying collateral for these securities and has resulted in our current book value being below the present value of estimated future principal and interest payments. The excess for each bond of the present value of future cash flows over our current book value ranges from 29% to 520% and will be recognized as an adjustment to yield over the remaining life of these securities. During the three- and six-months ended June 30, 2012, \$0.3 million and \$0.5 million, respectively, of the excess was recognized as an adjustment to yield on these securities.

The following provides a cumulative roll forward of credit losses recognized in earnings for debt securities held and not intended to be sold:

	For the Three-Months Ended June 30,		For the Six-Months Ended June 30,	
	2012	2011	2012	2011
	(dollars in thousands)			
Balance, beginning (a)	\$ 44,501	\$ 44,850	\$ 44,736	\$ 44,850
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized	0	0	0	0
Additional credit losses on debt securities for which other-than-temporary impairment was previously recognized	0	0	0	0
Increases in cash flows expected to be collected, recognized over the remaining life of the security (b)	(271)	0	(506)	0
Balance, ending	\$ 44,230	\$ 44,850	\$ 44,230	\$ 44,850

- (a) The beginning balance represents credit related losses included in other-than-temporary impairment charges recognized on debt securities in prior periods.
- (b) Represents the increase in cash flows recognized in interest income during the period.

In the second quarter of 2012 and 2011, no other-than-temporary impairment charges were recorded on equity securities. On a quarterly basis, management evaluates equity securities for other-than-temporary impairment by reviewing the severity and duration of decline in estimated fair value, research reports, analysts' recommendations, credit rating changes, news stories, annual reports, regulatory filings, impact of interest rate changes and other relevant information. As of June 30, 2012 and 2011, there are no equity securities in an unrealized loss position.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses

The following table provides outstanding balances related to each of our loan types:

	June 30, 2012	December 31, 2011
	(dollars in thousands)	
Commercial, financial, agricultural and other	\$ 1,059,675	\$ 996,739
Real estate construction	77,442	76,564
Residential real estate	1,213,610	1,137,059
Commercial real estate	1,232,270	1,267,432
Loans to individuals	576,534	565,849
Total loans and leases net of unearned income	\$ 4,159,531	\$ 4,043,643

During the six-months ended June 30, 2012, loans increased \$115.9 million or 3% compared to balances outstanding at December 31, 2011. A majority of the loan growth was recognized in the residential real estate portfolio as a result of seasonal demand and an ongoing loan promotion. Increases in the commercial, financial, agricultural and other portfolio can be attributed primarily to growth in our syndication portfolio in Pennsylvania and contiguous states, while loans to individuals increased due to growth in home equity installment loans and indirect auto lending.

Credit Quality Information

As part of the on-going monitoring of credit quality within the loan portfolio, the following credit worthiness categories are used in grading our loans:

Pass Acceptable levels of risk exist in the relationship. Includes all loans not adversely classified as OAEM, substandard or doubtful.

Other Assets Especially Mentioned (OAEM)

Potential weaknesses that deserve management's close attention. The potential weaknesses may result in deterioration of the repayment prospects or weaken the Bank's credit position at some future date. The credit risk may be relatively minor, yet constitute an undesirable risk in light of the circumstances surrounding the specific credit. No loss of principal or interest is expected.

Substandard Well-defined weakness or a weakness that jeopardizes the repayment of the debt. A loan may be classified as substandard as a result of deterioration of the borrower's financial condition and repayment capacity. Loans for which repayment plans have not been met or collateral equity margins do not protect the Company may also be classified as substandard.

Doubtful Loans with the characteristics of substandard loans with the added characteristic that collection or liquidation in full, on the basis of presently existing facts and conditions, is highly improbable.

The use of creditworthiness categories to grade loans permits management's use of migration analysis to estimate a portion of credit risk. The Company's internal creditworthiness grading system provides a measurement of credit risk based primarily on an evaluation of the borrower's

cash flow and collateral. Movements between these rating categories provides a predictive measure of credit losses and therefore assists in determining the appropriate level for the loan loss reserves. Category ratings are reviewed each quarter, at which time management analyzes the results, as well as other external statistics and factors related to loan performance. Loans that migrate towards higher risk rating levels generally have an increased risk of default, whereas, loans that migrate toward lower risk ratings generally will result in a lower risk factor being applied to those related loan balances.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)**Credit Quality Information (Continued)**

The following tables represent our credit risk profile by creditworthiness:

	June 30, 2012					
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Total
	(dollars in thousands)					
Pass	\$ 955,231	\$ 50,028	\$ 1,202,163	\$ 1,103,062	\$ 576,530	\$ 3,887,014
Non-Pass						
OAEM	27,384	699	5,668	68,925	4	102,680
Substandard	77,060	21,004	5,779	60,283	0	164,126
Doubtful	0	5,711	0	0	0	5,711
Total Non-Pass	104,444	27,414	11,447	129,208	4	272,517
Total	\$ 1,059,675	\$ 77,442	\$ 1,213,610	\$ 1,232,270	\$ 576,534	\$ 4,159,531

	December 31, 2011					
	Commercial, financial, agricultural and other	Real estate construction	Residential real estate	Commercial real estate	Loans to individuals	Total
	(dollars in thousands)					
Pass	\$ 904,057	\$ 44,914	\$ 1,126,143	\$ 1,110,664	\$ 565,842	\$ 3,751,620
Non-Pass						
OAEM	27,627	4,238	5,484	61,855	7	99,211
Substandard	60,114	21,701	5,432	94,913	0	182,160
Doubtful	4,941	5,711	0	0	0	10,652
Total Non-Pass	92,682	31,650	10,916	156,768	7	292,023
Total	\$ 996,739	\$ 76,564	\$ 1,137,059	\$ 1,267,432	\$ 565,849	\$ 4,043,643

Portfolio Risks

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Credit quality measures at June 30, 2012 compared to December 31, 2011 indicate a decrease in criticized loans, or loans designated OAEM, substandard or doubtful, of \$19.5 million, or 7%, an increase in delinquency on accruing loans of \$1.9 million, or 5%, and a \$0.2 million increase in nonaccrual loans, excluding loans held-for-sale.

Charge-offs for the six-months ended June 30, 2012 totaled \$8.7 million compared to \$19.8 million for the six-months ended June 30, 2011. The most significant charge-off during the six-months ended June 30, 2012 was a \$1.2 million charge taken on a \$2.0 million commercial loan relationship. During the six-months ended June 30, 2011, the most significant charge-off totaled \$3.1 million and related to a western Pennsylvania office complex. Other significant charge-offs totaled \$7.7 million and related to five construction loan projects located in Florida, Nevada, Ohio and western and central Pennsylvania.

Criticized loans totaled \$272.5 million at June 30, 2012 and represented 7% of the loan portfolio. This represents a \$19.5 million decrease compared with the portfolio as of December 31, 2011. These loans have been evaluated when determining the appropriateness of the allowance for credit losses, which we believe is adequate at this time. However, changes in economic conditions, interest rates, borrower financial condition, delinquency trends or previously established fair values of collateral factors could significantly change those judgmental estimates.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)Portfolio Risks (Continued)

The credit quality of our loan portfolio represents significant risk to our earnings, capital, regulatory agency relationships and shareholder returns. First Commonwealth devotes a substantial amount of resources to managing this risk primarily through our credit administration department that develops and administers policies and procedures for underwriting, maintaining, monitoring and collecting activities. Credit administration is independent of lending departments and oversight is provided by the Credit Committee of the First Commonwealth Board of Directors.

Risk factors associated with commercial real estate and construction related loans are monitored closely since this is an area that represents a significant portion of the loan portfolio and has experienced the most stress during the economic downturn.

In addition, during the first six months of 2012, five relationships consisting of eight loans, were classified as troubled debt restructuring. These loans increased the nonperforming loan balance by \$3.8 million with no increase in specific reserves.

Age Analysis of Past Due Loans by Segment

The following tables delineate the aging analysis of the recorded investments in past due loans as of June 30, 2012 and December 31, 2011. Also included in these tables are loans that are 90 days or more past due and still accruing because they are well-secured and in the process of collection.

	June 30, 2012						
	30 - 59 days past due	60 - 89 days past due	90 days and greater and still accruing	Nonaccrual	Total past due and nonaccrual	Current	Total
Commercial, financial, agricultural and other	\$ 9,148	\$ 4,101	\$ 3,604	\$ 27,758	\$ 44,611	\$ 1,015,064	\$ 1,059,675
Real estate construction	16	0	469	15,060	15,545	61,897	77,442
Residential real estate	6,555	1,852	4,961	3,923	17,291	1,196,319	1,213,610
Commercial real estate	1,497	431	305	31,951	34,184	1,198,086	1,232,270
Loans to individuals	2,384	875	1,248	0	4,507	572,027	576,534
Total	\$ 19,600	\$ 7,259	\$ 10,587	\$ 78,692	\$ 116,138	\$ 4,043,393	\$ 4,159,531

	December 31, 2011						
	30 - 59 days past due	60 - 89 days past due	90 days and greater and still accruing	Nonaccrual	Total past due and nonaccrual	Current	Total

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

(dollars in thousands)

Commercial, financial, agricultural and other	\$ 5,433	\$ 824	\$ 287	\$ 33,459	\$ 40,003	\$ 956,736	\$ 996,739
Real estate construction	0	180	0	14,911	15,091	61,473	76,564
Residential real estate	7,144	2,100	8,767	3,153	21,164	1,115,895	1,137,059
Commercial real estate	3,671	1,241	157	26,953	32,022	1,235,410	1,267,432
Loans to individuals	2,952	962	1,804	0	5,718	560,131	565,849
Total	\$ 19,200	\$ 5,307	\$ 11,015	\$ 78,476	\$ 113,998	\$ 3,929,645	\$ 4,043,643

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)

Age Analysis of Past Due Loans by Segment (Continued)

The previous tables summarize nonaccrual loans by loan segment. The Company generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, when part of the principal balance has been charged off and no restructuring has occurred, or the loans reach a certain number of days past due. Generally, loans 90 days or more past due are placed on nonaccrual status.

Nonaccrual Loans

When a loan is placed on nonaccrual, the accrued unpaid interest receivable is reversed against interest income and all future payments received are applied as a reduction to the loan principal. Generally, the loan is returned to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

Impaired Loans

Management considers loans to be impaired when, based on current information and events, it is determined that the Company will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all loan categories. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole source or repayment for the loan is the operation or liquidation of collateral. When the loan is collateral dependent, the appraised value less cost to sell is utilized. If management determines the value of the impaired loan is less than the recorded investment in the loan, impairment is recognized through an allowance estimate or a charge-off to the allowance. Troubled debt restructured loans on accrual status are considered to be impaired loans.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

Nonperforming loans, excluding loans held for sale, decreased \$13.8 million to \$84.9 million at June 30, 2012 compared to \$98.8 million at December 31, 2011. Contributing to this decrease was an \$11.3 million loan to a waste management company which was paid off in the first quarter and a \$9.1 million loan to an information technology firm which was returned to accrual status in the second quarter. The most significant loans placed into nonperforming status during the first half of 2012 included \$4.9 million for a commercial real estate loan to a nonprofit institution, \$2.5 million to a manufacturer of medical equipment and \$1.3 million on a residential lot development.

The specific allowance for nonperforming loans decreased by \$1.5 million at June 30, 2012 compared to December 31, 2011. Unfunded commitments related to nonperforming loans were \$4.8 million at June 30, 2012 and after consideration of available collateral related to these commitments, an off balance sheet reserve of \$39 thousand was established.

Loans held for sale totaled \$13.4 million at December 31, 2011 and the entire balance represented nonperforming loans. As of June 30, 2012, the sale of all of these loans had been completed and provided for a \$2.9 million gain.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)

Impaired Loans (Continued)

While these loans were considered to be nonperforming, they were not taken into consideration when determining the allowance for credit losses as they were carried at the lower of cost or fair value.

Significant nonaccrual loans as of June 30, 2012, include the following;

\$19.4 million, the remaining portion of a \$44.1 million unsecured loan to a western Pennsylvania real estate developer. This loan was originated in the second quarter of 2004 and was placed in nonaccrual status in the fourth quarter of 2009. A settlement plan with the borrower and three other lenders was reached in the fourth quarter of 2010 and resulted in an \$8.0 million principal payment and a \$15.4 million partial charge-off.

\$16.3 million commercial real estate loan for a real estate developer in eastern Pennsylvania. This loan was originated in the third quarter of 2007 and restructured in the fourth quarter of 2011 and resulted in a charge-off of \$4.2 million. The most recent appraisal for the real estate collateral was completed in the third quarter of 2011.

\$5.7 million, the remaining portion of a \$20.8 million construction loan for a Florida condominium project. This loan was originated in the second quarter of 2007. Charge-offs of \$15.1 million have been recorded on this loan. The most recent appraisal for the real estate collateral was completed in the second quarter of 2012.

\$4.9 million real estate secured loan to a western Pennsylvania nonprofit corporation. This loan was originated in the fourth quarter of 2008 and placed in nonaccrual status in the second quarter of 2012. The most recent appraisals for the various real estate collateral were completed in the fourth quarter of 2011 and the first quarter of 2012.

\$3.4 million, the remaining portion of an \$8.9 million commercial construction loan to a Nevada developer. This loan was originated in the second quarter of 2007. Charge-offs of \$5.2 million have been recorded on this loan. The most recent appraisal was completed in the fourth quarter of 2011.

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)Impaired Loans (Continued)

The following tables include the recorded investment and unpaid principal balance for impaired loans with the associated allowance amount, if applicable, as of June 30, 2012 and December 31, 2011. Also presented are the average recorded investment in impaired loans and the related amount of interest recognized while the loan was considered impaired. Average balances are calculated based on month-end balances of the loans of the period reported.

	June 30, 2012			December 31, 2011		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Related allowance
(dollars in thousands)						
With no related allowance recorded:						
Commercial, financial, agricultural and other	\$ 6,003	\$ 7,034	\$ 0	\$ 2,010	\$ 3,418	\$ 0
Real estate construction	4,132	10,281	0	10,814	20,161	0
Residential real estate	3,050	3,498	0	3,125	3,513	0
Commercial real estate	30,303	31,888	0	36,777	41,974	0
Loans to individuals	0	0	0	0	0	0
Subtotal	43,488	52,701	0	52,726	69,066	0
With an allowance recorded:						
Commercial, financial, agricultural and other	25,972	26,685	8,046	34,056	34,341	9,069
Real estate construction	10,928	31,827	2,747	6,298	21,402	2,960
Residential real estate	1,820	1,820	431	955	955	93
Commercial real estate	2,735	2,939	510	4,717	4,863	1,114
Loans to individuals	0	0	0	0	0	0
Subtotal	41,455	63,271	11,734	46,026	61,561	13,236
Total	\$ 84,943	\$ 115,972	\$ 11,734	\$ 98,752	\$ 130,627	\$ 13,236

	For the Six-Months Ended June 30,			
	2012		2011	
	Average recorded investment	Interest Income Recognized	Average recorded investment	Interest Income Recognized
(dollars in thousands)				
With no related allowance recorded:				
Commercial, financial, agricultural and other	\$ 10,291	\$ 21	\$ 3,167	\$ 5
Real estate construction	7,268	0	12,727	2

Edgar Filing: FIRST COMMONWEALTH FINANCIAL CORP /PA/ - Form 10-Q

Residential real estate	9,219	11	2,005	2
Commercial real estate	26,529	53	29,407	18
Loans to individuals	0	0	16	0
Subtotal	53,307	85	47,322	27
With an allowance recorded:				
Commercial, financial, agricultural and other	19,101	6	27,026	76
Real estate construction	6,865	0	31,124	2
Residential real estate	797	14	506	0
Commercial real estate	2,028	0	29,292	177
Loans to individuals	0	0	0	0
Subtotal	28,791	20	87,948	255
Total	\$ 82,098	\$ 105	\$ 135,270	\$ 282

Table of Contents

FIRST COMMONWEALTH FINANCIAL CORPORATION AND SUBSIDIARIES

ITEM 1. *Financial Statements and Supplementary Data (Continued)*

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

Note 10 Loans and Allowance for Credit Losses (Continued)

Impaired Loans (Continued)

For the Three-Months Ended June 30,		
	2012	2011
Average recorded investment	Interest Income Recognized	Average recorded investment